



## **FACT SHEET: Closing Special Interest Tax Loopholes to Make College More Affordable**

*College should be a path to opportunity, not a life sentence of debt and financial strain. That is why Senate Democrats will introduce the Reducing Education Debt (RED) Act to help put America on a path to debt-free college in 2016. The RED Act would make community college tuition-free, allow student loan borrowers to refinance their outstanding debt at lower interest rates, and increase Pell Grants to keep pace with rising costs. In order to insure that this legislation is fiscally responsible as well, the RED Act is fully paid for by closing egregious tax loopholes enjoyed by special interests.*

### ***End Subsidies for Corporate Bonuses***

In 2015, U.S. Senators Jack Reed (D-RI) and Richard Blumenthal (D-CT) reintroduced the Stop Subsidizing Multimillion Dollar Corporate Bonuses Act. This legislation would close a major loophole in current corporate tax law by preventing unlimited tax write-offs for performance-based executive pay. In their most recent estimate, the Joint Committee on Taxation estimated that this loophole costs U.S. taxpayers over \$50 billion over a 10 year timeframe.

The Economic Policy Institute estimates “that between 2007 and 2010, a total of \$121.5 billion in executive compensation was deductible from corporate earnings, and roughly 55 percent of this total was for performance-based compensation.” Furthermore, according to the Economic Policy Institute, “from 1978 to 2013, CEO pay at American firms rose a stunning 937 percent, compared with a mere 10.2 percent growth in worker compensation over the same period, all adjusted for inflation. Businesses and their shareholders – not the government – should determine executive pay. But the federal government should ensure that American taxpayers aren’t subsidizing multimillion dollar bonuses. Under current law, this performance-based corporate tax loophole forces the middle-class to subsidize executive pay at some of the most profitable companies out there.

### ***Tax “Carried Interest” as Ordinary Income***

The “carried interest” loophole allows certain investment managers (including private equity managers) to benefit from a tax provision that allows them to pay a reduced 15 percent or 20 percent long term capital gains tax rate on income received as compensation. This is income that would otherwise be taxed as ordinary income, with rates of up to 39.5 percent. As compensation for providing the service of managing their investors’ assets, fund managers often receive a percentage of the fund’s profits, or a carried interest, usually equal to 20 percent of profits. The Carried Interest Fairness Act of 2015, authored by Senator Tammy Baldwin (D-WI), provides

that the “carried interest” compensation received by investment fund managers will be taxed as ordinary income and treated as wage income subject to employment taxes – just as it is for ordinary, hardworking Americans. Additionally, the bill would require carried interest to be reported on annual tax forms. According to the Joint Committee on Taxation’s most recent score, closing this loophole would raise approximately \$18 billion in revenue over 10 years.

### ***A Fair Share Tax on Millionaires – the “Buffett Rule”***

Billionaire investor Warren Buffett has observed that he pays a lower effective tax rate than his secretary, because he receives the bulk of his income in the form of capital gains, which enjoy a lower tax rate than what ordinary Americans pay. The Buffett Rule is meant to ensure that middle class families will not confront higher effective tax rates than those at the top of the income ladder. The Buffett Rule would require millionaires to pay at least a 30 percent tax rate, raising over \$37 billion dollars for new investments.

### ***Close the Stock Options Loophole***

Many big corporations give their executives options to buy the company’s stock at a discounted price in the future. When those executives exercise those options the company can take a tax deduction for the difference between what the employees pay for the stock and what it’s worth (while employees report this difference as taxable wages). For example, if a company gives an employee a stock option of \$10 a share, and it’s worth \$18 a share when the employee elects to exercise the \$10 option price, the corporation can deduct the \$8 difference. Between 2010 and 2012, 280 companies in the Fortune 500 disclosed reducing their tax rates using this same loophole. More than 20 companies cut their taxes by a quarter billion dollars or more during this time period. By closing this loophole, over \$10 billion can be returned to the taxpayers.

### ***Stop Corporate Inversions***

Inversions – corporate deals that allow U.S. companies to move their tax domicile overseas to evade U.S. taxes – will cost American taxpayers nearly \$34 billion over the next ten years. Congress acted to curtail these transactions in 2004, but companies have found ways to evade the rules. More than 40 U.S. corporations have inverted, many by acquiring a smaller foreign company to avoid Section 7874. The Stop Corporate Inversions Act, authored by Senators Richard Durbin (D-IL) and Jack Reed (D-DE), would close this loophole and raise nearly \$25 billion over ten years:

- The bill would treat a combined foreign corporation as a domestic corporation under two circumstances – (1) if the shareholders of the former U.S. corporation own more than 50 percent of the new combined foreign corporation.
- The bill would repeal the 60 and 80 percent ownership tests as well as the inversion gain applicable under such circumstances.
- The bill would maintain the foreign substantial business exception under Section 7874 by exempting the affiliated group if it has substantial business activities in the foreign country where the new combined corporation is incorporated.

The bill would apply to inversions completed after February 10, 2016.

### ***Eliminating Taxpayer Subsidies for Big Oil***

The nation's five largest oil companies (BP, Exxon, Shell, Chevron, and ConocoPhillips) took home nearly \$1 trillion in profits over the past decade, including \$90 billion in 2014, yet continue to receive costly subsidies at the expense of the American taxpayer. The Close Big Oil Tax Loopholes Act of 2015, authored by Senator Robert Menendez (D-NJ), would finally put an end to unfair taxpayer handouts to these highly profitable companies and return tens of billions of dollars to the federal government.